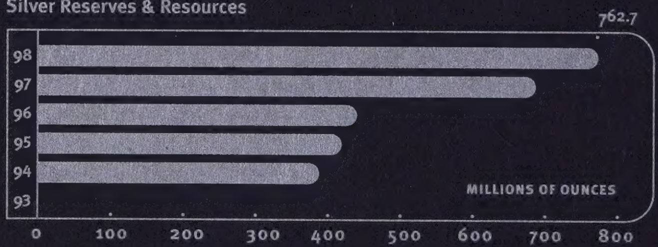
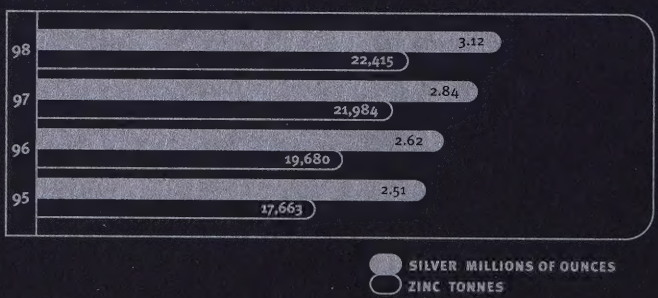
Pan American Silver Corp.

1998 Annual Report

Silver Reserves & Resources



Quiruvilca Production Profile



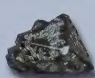
The Company's reporting currency is the US dollar. All dollar amounts in this report are expressed in US dollars unless indicated otherwise.

Data on USA properties are described in Imperial units and data on properties in other countries are described in metric units.

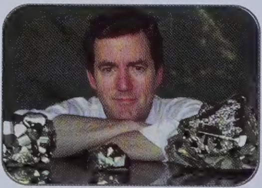
Pan American Silver | Corporate Profile

Pan American Silver is a mining company focussed exclusively on silver. In 1998, the Company produced 3.12 million ounces of silver from its Quiruvilca mine in Peru and commenced development of new silver mines in Mexico and Russia which should increase the Company's silver production by 600 percent to over 19 million ounces annually by 2001. Pan American controls over 760 million ounces of silver worldwide, and maintains active exploration programs in Bolivia, Peru and Mexico for new silver resources.

Pan American Silver is listed on the NASDAQ-Amex National Market Board and the Toronto Stock Exchange, where it forms part of the TSE 300 Index. The Company is in good financial condition with $30 million in cash, no debt and positive operating cash flow from its Peruvian mine.



Chairman's Report to Shareholders



Since Pan American's inception as a silver company in 1994 we have had a single goal: to become one of the world's leading silver mining companies, thereby offering investors the best silver equity investment available. I am pleased to report to shareholders that we are now at the threshold of realizing this goal. Notable achievements to this end in 1998 were:

- Our Quiruvilca mine in Peru increased its silver output to 3.12 million ounces and established a new record in mill production. This is particularly noteworthy in view of the mine's 72 year record of continuous production. Further production increases and cost cutting measures are planned in 1999 from Quiruvilca.
- In Mexico, we acquired the La Colorada silver project, successfully increased its reserves and resources through a systematic exploration program and commenced, at year-end, a mine development program which will result in renewed production early in 2000 at an annual production rate of 4.5 million ounces of silver.
- In Russia, we acquired a license to mine the great Dukat silver deposit in February and completed two independent feasibility studies, each modelling different mine development scenarios. The latter study, completed in December, concluded that an $89 million re-opening of the existing mill and mine at Dukat would show robust economics at a $5 per ounce silver price. Project financing arrangements are now in progress, and construction is expected to begin in mid-1999 for initial operation in early 2000 and full production by late 2001 as one of the world's largest primary silver mines.
- 1998 was also a rewarding year for our exploration efforts. Drilling programs at La Colorada expanded the silver vein reserves ten-fold and discovered a deep zone of replacement mineralization with large size potential, which will be further explored in 1999. At the Tres Cruces project in Peru, successful exploration in 1997 and early 1998 delineated a gold resource of about two million ounces. The Company's $300,000 cost base at Tres Cruces was recovered late in 1998 when the property was optioned to Battle Mountain Gold for payments that could exceed $15.8 million to Pan American by late 2001. New exploration properties were also acquired in Peru and Mexico.
- Our operating results in 1998 were negatively affected by low metal prices throughout the year, particularly zinc's, and by El Niño rains at Quiruvilca. Our working capital decreased as funds were spent finishing the Quiruvilca mine capital program, developing reserves at La Colorada and completing the Dukat feasibility study. Early in 1999, $21 million was raised in new capital to fund ongoing development costs. With implementation of a number of planned cost-cutting measures in Peru, operating results are expected to improve in 1999. Our balance sheet remains conservative, with a healthy cash reserve and no debt.

Board of directors (L to R) back row: John Wright, President and Chief Operating Officer; Ross Beaty, Chairman and Chief Executive Officer; Bill Fleckenstein; front row: Ted Fletcher and Michael Maloney

As you can imagine, these achievements in 1998 were the result of an enormous effort by our management and staff. Pan American now provides employment to more than 1,550 people: 1,280 at our Peru operations, 160 in Mexico, 96 in Russia and 14 at our head office in Vancouver. It is difficult enough to build one new mine in a year; our planned construction of two mines in 1999, especially in such diverse regions as Mexico and Russia, will be particularly challenging. Fortunately, both projects involve the rebuilding of recently producing mines where much of the operating infrastructure already exists. Furthermore, we now have in place all senior management in both Mexico and Russia capable of bearing responsibility for construction and operations. In Vancouver Pan American is blessed with an outstanding team which I believe will fully meet all management tasks in 1999. I welcome to the Company our new staff in Mexico and Russia. As always, I wish to extend to all our staff, on behalf of Pan American's shareholders, my appreciation for their individual and teamwork contributions to Pan American's rapid and successful international growth.

This report to shareholders includes a summary of our three mining projects, a description of our exploration programs, and of course our financial results. It also describes the ways in which we are working within the communities where we operate to establish meaningful programs to improve existing conditions of health, safety, education and environmental stewardship. All of these are fundamental to our corporate health.

Silver prices are also critically important to Pan American. In 1998, the announcement of Warren Buffett's decision to purchase 130 million ounces of silver caused silver prices to spike to $7.81 in February, but prices promptly declined and ended the year below $5.00. Please read the section in this report on silver fundamentals. It summarizes why I am convinced that silver prices will trend higher in 1999 and beyond.

With completion in 1999 of the Quiruvilca capital expansion program, and with construction in 1999 of the La Colorada and Dukat mines, Pan American Silver will enter the new millennium with three large, low cost silver mines which will produce returns to shareholders for many years to come. We will continue our exploration programs and our search for new silver opportunities globally. We will seek to maintain our conservative financial track record. Through these efforts we will remain firmly focussed on wealth-creation and on achieving our corporate objective of becoming one of the world's leading silver producers.

Respectfully submitted,

Ross J. Beaty *Chairman*
February 15, 1998

Pan American Silver

Property Locations

Since its inception as a silver company in mid-1994, Pan American Silver has grown to become one of the most prominent silver equity investments available. Pan American controls a resource base of over 760 million ounces of silver and is building two new mines that will result in a six-fold growth in annual silver production. The Company has demonstrated successful mine management with the financial and operational turnaround of the Quiruvilca silver-zinc mine (p. 6) in Peru, a mine with a 70 year mining history. Since acquisition of the mine in 1995, Pan American has boosted production and reserves to record levels and trimmed operating costs. The Company's Quiruvilca mine will meet globally acceptable environmental standards (p. 9) by year-end and continues to work toward modern safety and health standards (p. 19). Pan American is advancing two new development projects (Dukat p. 10 and La Colorada p. 14) that will grow the Company's long-term, low-cost, highly leveraged silver production to over 19 million ounces per year. Shareholder value has been augmented through exploration successes in Mexico and Peru, and the Company's focus on exploration (p. 16) will continue in 1999. Pan American also holds investment properties (p. 18), which could add to the Company's production if strong silver fundamentals (p. 20) result in sustained higher silver prices. Pan American maintains its conservative financial management with a strong cash balance, a simple share structure with widespread ownership, and no debt.

Reserves and Resources

Property	Location	Category	Tons millions	Tonnes millions	Ag Grade opt	Ag Grade gpt	Ag oz millions	By-products	Ag Price needed US$
Quiruvilca	Peru	reserve		3.5		225	25.4	5.2% Zn, 1.8% Pb, 0.9% Cu	current
		resource		4.2		221	29.5	5.5% Zn, 2.0% Pb, 0.4% Cu	
		low grade resource		2.0		117	7.3	2.0% Zn, 0.7% Pb, 1.0% Cu	
La Colorada	Mexico	vein reserve		1.6		530	26.8	3.0% combined Pb-Zn	current
		vein resource		1.6		646	33.6	4.8% combined Pb-Zn	
		deep resource		1.1		236	8.6	6.3% Zn, 3.25% Pb	
		breccia resource		15.0		100	48.2	3% combined Pb-Zn	
Dukat	Russia	reserve		10.6		755	256.1	1.4 gpt Au	current
		resource		20.8		330	220.8	1.0 gpt Au	
Hog Heaven	Montana	reserve/resource	11.2		4.34		48.7	0.019 opt Au	6.00
Waterloo	California	reserve	37.2		2.71		100.9	13.4% Barite	7.00
Hardshell	Arizona	reserve	20.0		3.35		67.0	8% Mn	8.00
Capoose	BC	reserve/resource	31.1		1.05		32.7	0.01 gpt Au	9.00
								Total* 762.7 million ounces of silver	

* Includes only 70% of Dukat total

Quiruvilca Silver Mine

In 1998, the Quiruvilca mine achieved new production records. Reserves and resources expanded to their highest levels ever. The $28 million capital investment program, initiated in September 1995 when Pan American acquired its interest in the mine, was nearly completed.

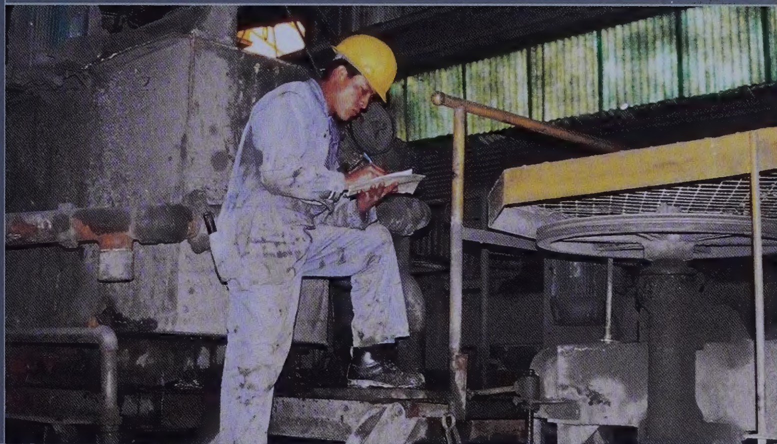
The Quiruvilca mine is one of Peru's oldest mines with evidence of mining activity dating back to at least the 1500's. The mine is located at an elevation of 3,800 meters in the Andes Mountains of northern Peru, approximately 130 kilometers inland from the coastal city of Trujillo. Asarco Incorporated operated Quiruvilca from 1925 until September of 1995, when Pan American Silver acquired its 99.7 percent interest in the mine. Asarco retains a 20 percent net profit interest in the operation.

The underground workings at Quiruvilca cover an area four kilometers long by three kilometers wide and extend to more than 400 meters in depth. With more than 100 active working faces on the veins, and average vein widths of 0.6 meters, the mine does not lend itself to modern mining technology and is, therefore, very labor intensive. Since Pan American's acquisition, production has been expanded from 34,000 tonnes per month to 50,000 tonnes per month, while the workforce has been reduced from 1,800 to 1,280 workers. Reserves and resources have tripled to provide sustained future production and, with veins continuing along strike and at depth, the mine is assured a long life.

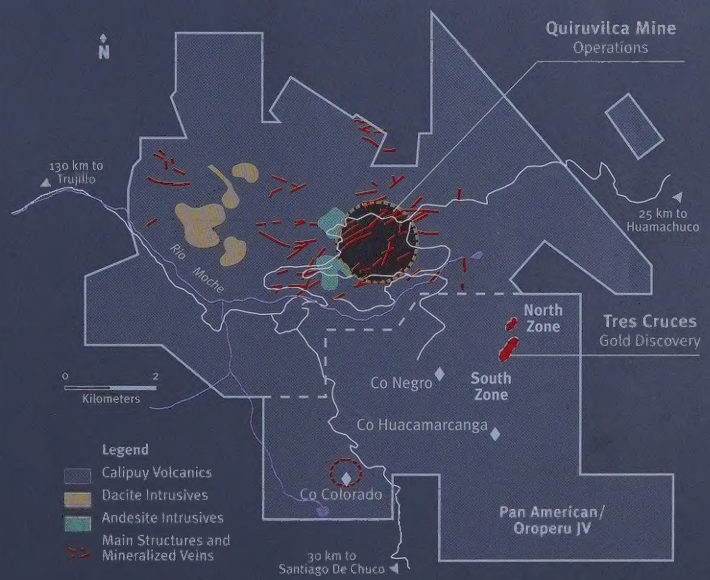
Investment Program

Pan American's $28 million capital investment program at Quiruvilca was designed to increase reserves, improve mine efficiency, expand production and upgrade the operation to modern environmental and safety standards. Capital expenditures in 1998 amounted to $8.4 million and programs included tailings remediation and expansion, mine deepening and construction of a mine water treatment facility. Successful definition of additional reserves at shallower mine levels allowed the next stage of mine deepening to be deferred and capital allocated to this program was used to complete tailings remediation ahead of schedule. The $3.8-million mine water treatment plant constructed in 1998 is being put into operation. The capital investment program, commenced in 1995, will be completed in 1999 with budgeted expenditures of $3.4 million, $2 million of which are carried-over from 1998.

Monitoring Output at Quiruvilca Plant

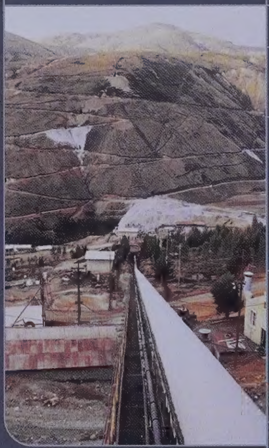


Targets & Geology | Quiruvilca/Tres Cruces | Peru

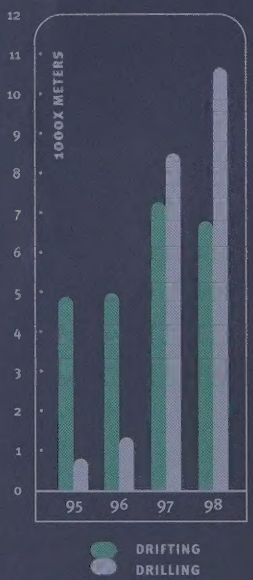


Quiruvilca Site | Peru

Quiruvilca Mine



Drifting & Drilling



Quiruvilca Mine Statistics

	1993	1994	1995	1996	1997	1998
Tonnes milled	399,000	465,495	452,090	459,660	508,560	537,705
Tonnes/month	33,250	38,791	37,674	38,305	42,380	44,809
Grade						
g/t silver	226	221	210	211	201	206
% zinc	4.62	4.50	4.42	4.72	4.79	4.62
% lead	1.61	1.58	1.48	1.40	1.35	1.33
% copper	0.22	0.23	0.37	0.41	0.41	0.34
Recovery						
% silver			82.0	84.0	86.6	87.7
% zinc			88.4	89.8	90.2	90.2
% lead			81.8	81.5	81.1	85.9
% copper			52.8	61.1	61.3	58.0
Production						
ounces silver	2,425,339	2,777,011	2,506,635	2,624,213	2,840,648	3,116,144
tonnes zinc	16,913	18,908	17,663	19,680	21,984	22,415
tonnes lead	5,497	6,285	5,499	5,338	5,581	6,142
tonnes copper	240	390	878	1,047	1,281	1,060
Operating cost						
$/tonne milled			60.79	53.79	48.72	47.45
Reserves						
tonnes	1,420,000	2,344,000	3,078,000	2,612,100	2,904,395	3,515,000
Grade						
g/t silver	304	240	209	224	248	225
% zinc	5.83	5.11	4.70	5.14	5.68	5.21
% lead	2.13	1.92	1.63	1.72	1.83	1.77
% copper	0.43	0.40	0.46	0.43	0.60	0.87

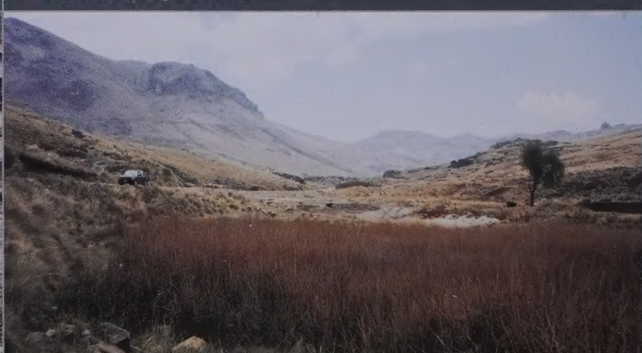
Ore Reserves as of December 31, 1998

	Tonnes	Silver g/t	Zinc %	Lead %	Copper %
Proven/Probable Reserve	3,515,000	225	5.21	1.77	0.87
Inferred Resource	4,154,000	221	5.45	1.96	0.43
Total	7,669,000	223	5.34	1.87	0.63

In addition there is a low grade resource of 1,948,000 tonnes grading 117 g/t Ag, 1.02% Cu, 0.70% Pb, and 2.04% Zn.

Dedication of New Locomotive

Wetland at Quiruvilca



Quiruvilca Silver Mine (cont'd)

1998 Summary

Cash and total production costs per ounce of silver produced were $3.78 and $4.56, respectively. These costs were higher than those of 1997 primarily due to higher operating costs, much lower realized prices for by-product metals and to the effect of severe El Niño rains early in the year. Zinc prices declined by 20 percent (59 cents per pound average in 1997 versus 47 cents per pound in 1998), and extra costs were incurred when the heavy rains hampered normal operating conditions.

Metal production at Quiruvilca increased to 3.12 million ounces of silver, 22,415 tonnes of zinc, 6,142 tonnes of lead and 1,060 tonnes of copper recovered to concentrates. Silver recovery increased from 86.6 percent in 1997 to 87.7 percent in 1998. Further measures to increase efficiency and mine productivity are being implemented, which are expected to result in production of 3.5 million ounces of silver in 1999. Ore processing increased 6 percent in 1998 to an average of 44,809 tonnes per month (the last four months averaged 48,041 tonnes per month) from 42,380 tonnes per month in 1997. With completion of the major mine expansion program, production in 1999 is expected to average more than 50,000 tonnes per month.

Current proven and probable reserves at Quiruvilca are 3.52 million tonnes grading 225 g/t silver, 5.2 percent zinc, 1.8 percent lead and 0.9 percent copper, based on metal prices of $5.50 per ounce silver and $1000 per tonne zinc. This is an increase of 611,000 tonnes from 1997's year-end reserves, after accounting for 537,705 tonnes mined during the year. The mine's resource category contains an additional 4.15 million tonnes at similar grades, which will be upgraded to reserves with further definition work. A low-grade resource of 1.95 million tonnes grading 117 g/t silver and 2.0 percent zinc has historically been mined as part of the operation. Future optimization of the mine plan will aim at reducing the amount of low grade material mined.

Environmental Programs

Due to Quiruvilca's long operating history, several significant environmental issues existed when Pan American acquired the mine, and remediation of these has been an ongoing focus. To date the Company has invested approximately $7.5 million on environmental projects at Quiruvilca, including $3.7 million spent during 1998. The major environmental project of the year was the construction of a mine water treatment plant, which improves the quality of mine site water to international standards. Other projects during 1998 included the initiation of revegetation on the historic Almirvilca tailings in preparation for final closure, the first tailings closure accepted by the Peruvian Ministry of Energy and Mines. Additional projects included construction of a stabilization berm and sludge containment dike at the San Felipe tailings site, and stabilization and capacity increases at the Santa Catalina tailings dam.

Dukat Mine

Dukat is the world's third largest known primary silver deposit. It is located in Magadan State, far eastern Russia, 580 kilometers northeast of the port city of Magadan and 36 kilometers west of the town of Omsukchan. Magadan is one of Russia's great mining regions, having produced more than 85 million ounces of gold since 1930. Kinross Gold Corp. operates the 500,000 ounce per year Kubaka mine, Russia's largest gold mine, located 400 kilometers northeast of Dukat.

The Dukat deposit was discovered in the mid 1960's, explored and defined during the 1970's, and operated as the largest silver mine in the Soviet Union from 1979 until 1995, with total production estimated at 90 million ounces of silver. More than 60 veins and mineralized structures have been identified within the Dukat deposit. The average mineable vein width is 4 meters and the veins extend over an area of 2.5 by 3.5 kilometers. Exploration and definition of the deposit included over 140 kilometers of underground tunneling. Ore was milled in Omsukchan and the resulting silver concentrate was transported by truck, ship and train to a smelter in Kazakhstan, over 10,000 kilometers away. The break-up of the Soviet Union triggered the mine's insolvency by 1995, although it continued to produce sporadically until 1998. Dukat contains official B, C1 and C2 "reserves" published by Russian state agencies of 31.36 million tonnes grading 473 grams of silver per tonne and 0.98 grams of gold per tonne for total contained metal of 477 million ounces of silver and 1 million ounces of gold.

1998 Summary

In February 1998, the mining license over the deposit was awarded to ZAO Serebro Dukat, a 70 percent-owned subsidiary of Pan American Silver. The Company commissioned a bankable feasibility study for a new mine and new mill at Dukat, capable of producing silver doré for export. The feasibility study was completed in August 1998 and called for capital expenditures of $212 million to achieve mine start-up in late 2001. The study projected a 10.7 percent rate of return for Pan American's proposed investment in the project. In August, Russia suffered a major political and financial crisis. As a result of the marginal economics and the crisis, Pan American commissioned a supplemental feasibility study to examine an alternative development plan for Dukat which would reduce the Company's financial risk. Kilborn Engineering Pacific Ltd., a division of SNC-Lavalin, Canada's largest engineering-construction firm, performed the supplemental study, which was completed in December and forms the basis for Pan American's plan to renew production from Dukat.

Dukat Underground Drift

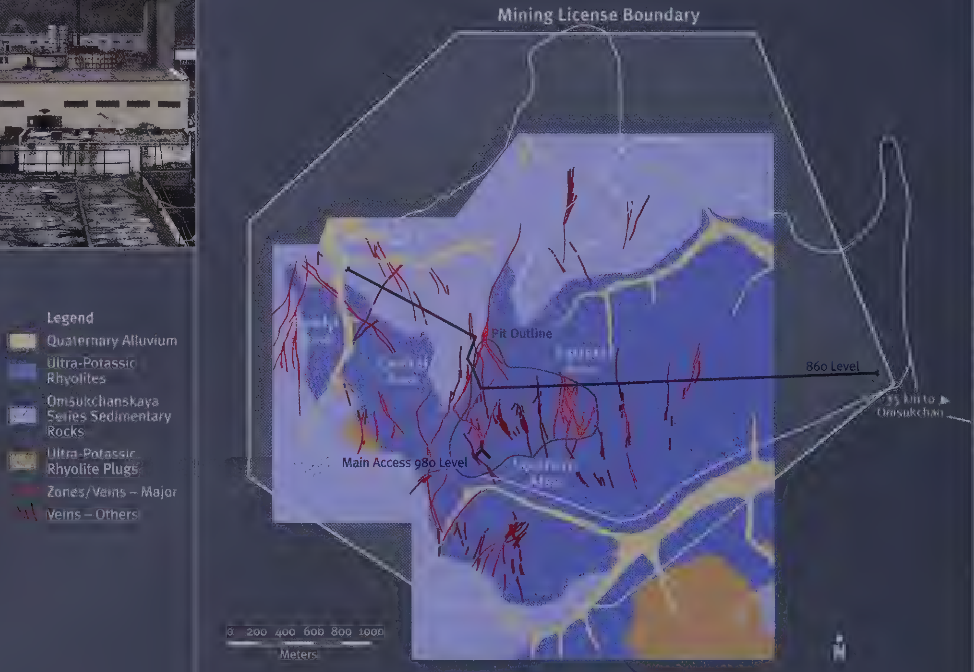
Development Plan | Dukat

- **Estimated Capital Cost**
  $89.0 million
  (incl. working capital)
- **Production Plan**
  750,000 tonnes of ore per year
  15 year mine life
- **Annual Production**
  15.8 million ounces of silver
  30,500 ounces of gold
- **High Metal Recoveries**
  93% of silver
  92% of gold
- **Estimated Costs per Ounce of Silver**
  Cash cost $ 1.51
  Production cost $ 3.54

Town of Dukat | Magadan | Russia

Mill at Omsukchan

Dukat Mine | Geology, Veins & General Infrustructure



Dukat Minesite | Magadan Oblast | Russia

Dukat Mine (cont'd)

The Kilborn study models mining and processing from the existing mine and mill facilities at Dukat, rather than construction of new mine and mill facilities, and assumes production of silver concentrate, rather than silver doré. This plan significantly reduces capital costs, increases the project's rate of return, and allows an earlier start of silver production. Diluted, recoverable, proven and probable mine reserves calculated for the Kilborn study are 10.55 million tonnes grading 755 grams of silver per tonne and 1.54 grams of gold per tonne. Recoverable metal is 256 million ounces of silver and 522,000 ounces of gold. Additional silver resources exist at Dukat, but require further development or higher metal prices to be defined as reserves. Cash costs per ounce of silver production, net of gold by-product credits, are estimated at $1.51 and total production costs, which include all taxes, royalties, DD&A and administration, are estimated at $3.54 per ounce. The study models mining and processing at an initial rate of 380,000 tonnes in the year 2000, increasing to a sustained rate of 750,000 tonnes per year by the end of 2001. Metal production, in the form of silver concentrate for export to overseas smelters, would average 15.8 million ounces of silver and 30,500 ounces of gold per year, over a 15-year mine life.

Total capital costs including VAT taxes, customs duties, contingencies, and working capital are estimated at $89 million. An additional $43 million in sustaining capital is budgeted for the planned 15 year mine life. In February 1999 a mandate letter was signed with the International Finance Corporation (IFC), the private sector lending arm of the World Bank. Under this mandate letter, the IFC agreed to structure a plan to finance construction and operation of the Dukat silver mine. Permit applications for renewed operation have been submitted to Russian authorities and are pending approval. An environmental impact study, and detailed tailings and geotechnical studies have been completed. Subject to receipt of project financing, construction is targeted to commence in May 1999 with initial mill commissioning in early 2000.

As our shareholders will understand, working in Russia in the past year has been extremely challenging. Pan American has persisted with the Dukat project for a number of reasons. First, the Dukat deposit is a great orebody – high grade, large tonnage, metallurgically simple and with no environmental problems. Second, we believe Pan American's financial risk will be reduced due to our proposed affiliation with the World Bank, our access to political risk insurance, our experienced Russian partner (who worked successfully with a North American partner in financing, constructing and operating Russia's largest gold mine (Kubaka)), and our accelerated production schedule, which takes advantage of the existing infrastructure at Dukat. Third, our reward for succeeding at Dukat is profound in that it will contribute to making Pan American one of the world's largest, lowest cost, best leveraged silver producers. Finally, we have good cooperation from Russian authorities at all levels, because Dukat will provide many benifits to the Russian economy – new jobs, new demand for Russian goods and services, and new tax revenues, which are projected to exceed $380 million over the mine life. Dukat is an economic project even under today's challenging conditions in Russia, and we believe that these conditions will improve to reward companies actively involved in the Russian mining sector.

La Colorada Mine

The La Colorada property is located approximately midway between the cities of Zacatecas and Durango in west central Mexico. The property lies within the Faja de Plata, a northwest-trending silver belt over 800 kilometers in length defined by Mexico's great silver deposits. This belt includes the San Martin/Sabinas mines and the Fresnillo mine, located in the La Colorada region. Fresnillo is the world's second largest primary silver mine, producing over 23 million ounces per year from underground veins. The San Martin/Sabinas complex consists of two separate underground bulk mining operations, which exploit adjacent replacement style deposits resulting in combined production of 5.5 million ounces of silver per year. Shallower vein systems, similar to those currently being developed at La Colorada, also occur at San Martin/Sabinas and were mined historically.

Before Pan American's purchase, the La Colorada mine operated at about 200 tonnes per day with an accessible reserve base of less than 100,000 tonnes. The operation was under-capitalized and, as a result, the local owners, two well-respected Mexican mining engineers, sold the property to Pan American in March 1998. The purchase price was $2.1 million, 304,000 common shares and a 5 percent NSR royalty, which can be reduced to 2 percent within five years for a $2 million payment. Prior to purchase, Pan American completed a 5,875-meter due diligence drilling program, which yielded excellent results.

In addition to better defining the vein mineralization, Pan American's initial drilling tested the system below the veins and discovered a potentially significant, new style of mineralization. The grade and thickness of this mineralization is similar to that being mined by bulk-tonnage methods in the San Martin/Sabinas underground complex, which exploits replacement and skarn mineralization adjacent to an intrusion. Eight follow-up holes to date in the new zone outline a resource of 1.14 million tonnes grading 236 grams of silver per tonne with 6.3 percent zinc and 3.25 percent lead in a continuous zone averaging 6.1 meters in width. Potential for discovery of additional mineralization beneath the veins, as well as more widespread skarn and replacement mineralization along the margins of the central intrusion, is considered excellent.

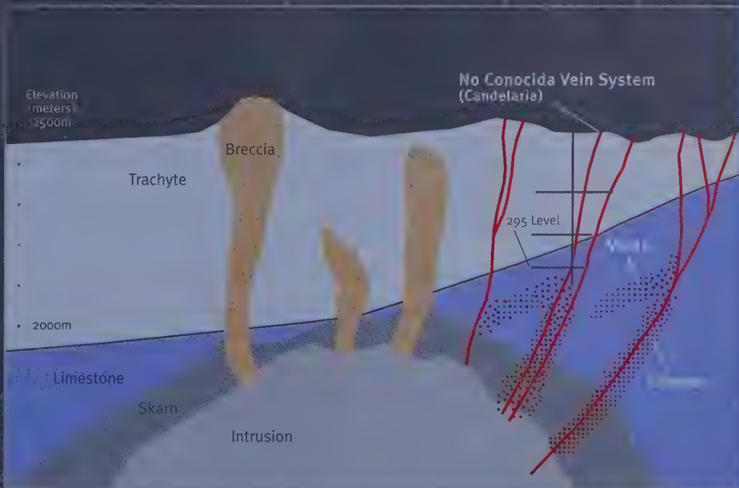
1998 Summary

Following Pan American's initial 5,875-meter drill program, an internal pre-feasibility study was completed on the vein mineralization. Pan American then purchased the mine and completed over 12,000 meters of development drilling, rehabilitated the shaft and hoist, and initiated a 3,700-meter underground development and reserve definition program to move additional inferred resources into the measured and indicated categories. Pan American now plans to construct a new 850 tonne per day mine and mill at La Colorada in mid-1999, which will produce 4.5 million ounces of silver per year, commencing early in 2000.

La Colorada Landscape | Mexico

Property Locations

Schematic Cross Section | La Colorada Project | Zacatecas | Mexico



La Colorada Mine | Zacatecas State | Mexico

Mountain ranges of common geologic origin extend along the Pacific edge of the continents from South America, through Central America and Mexico, and through North America and Alaska to southeastern Siberia. This belt is known geologically as the "Pacific Ring of Fire" for its historic and recent concentration of volcanic activity, which is the source of many mineral deposits. This region contains most of the world's largest deposits of silver and all of Pan American's current property holdings. The Company's most active exploration programs are centered in Mexico, Peru and Bolivia, the three largest historic silver producing countries in the world.

La Colorada

Exploration will continue to be a key focus of Pan American's work at La Colorada. Three styles of silver mineralization are known to occur on the project: vein, breccia, and replacement (skarn). The Company has targeted much of its work to date on upgrading and defining the vein reserves, which form the basis of near-term production. La Colorada contains more than 30 mapped veins, several of which contain all of the currently defined reserves. Ongoing exploration and development of the veins will expand the reserve base of the planned underground operation, thus assuring a long-term mine life. Twelve breccia pipes occur at La Colorada and were historically mined for their disseminated mineralization that averages 100 grams of silver per tonne with 3 percent combined lead and zinc. These will be further evaluated in 1999. The discovery of deep replacement-style mineralization gives the greatest potential for definition of new bulk-mineable ore bodies, and will be Pan American's 1999 exploration focus.

Tres Cruces

The Tres Cruces gold project forms part of the Quiruvilca property and is centered approximately five kilometers southeast of the Quiruvilca silver-zinc mine. Gold mineralization was discovered in late 1996 by Vancouver-based Oroperu Resources on their adjacent ground and followed onto the southeastern portion of the Quiruvilca property. A joint venture was formed, which allowed Oroperu to earn a 50 percent interest in this portion of the Quiruvilca property, now called Tres Cruces. The gold discovery was explored in 1997 by a 61-hole (13,580-meter) drill program, and Oroperu calculated a preliminary resource of 30.8 million tonnes grading 2.00 grams of gold per tonne (nearly 2 million ounces of gold) in late 1997. Further work in 1998 on Tres Cruces included metallurgical testing and geophysical surveys.

In November 1998, Pan American and Oroperu agreed to grant Battle Mountain Gold Company (BMG) an option to acquire a 100 percent interest in the Tres Cruces gold property. BMG is a major gold producing company with 1998 production of 889,000 ounces from six mines, including the Kori Kollo mine in Bolivia, which has a similar physical and cultural setting to Tres Cruces. Pan American optioned its interest in order

to retain its focus on silver and fully recovered its $300,000 investment on Tres Cruces with the initial cash payment of $600,000 (50 percent to Pan American) by BMG. To exercise its option BMG must pay equal amounts to Pan American and Oroperu of $1 million in each of late 1999 and 2000, and $13.5 million in late 2001, for a total consideration of $31.6 million. BMG must also spend at least $2.5 million annually on exploration and pay all land holding costs to maintain its option. After BMG's acquisition, additional future cash payments to the joint venture will be based on defined, recoverable gold reserves. BMG will also pay a sliding scale NSR royalty for subsequently defined gold ounces. Exploration potential at Tres Cruces is considered excellent.

Felix

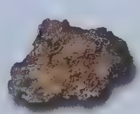
Pan American entered into a joint venture agreement with Teck Corporation and Southwestern Gold in October 1998 for the Felix property, located in southern Peru. The Felix property consists of 30,375 hectares of exploration concessions from which high-grade precious and base metal values have been obtained from over 100 vein, manto, dissemination and stockwork targets. The Felix property lies within a mineralized structural corridor, which extends for 28 kilometers, is up to 2.5 kilometers in width, and is exposed over a vertical relief of up to 1,400 meters along the valley walls of the Tambo River. Pan American can earn a 100 percent interest in the Felix project by spending $3 million over a three year period, with a commitment to spend $250,000 in the first year.

Plateros

In October 1998, Pan American acquired a 100 percent interest in the Plateros silver property, located in Zacatecas State, Mexico, 5 kilometers north of the Fresnillo mine, the world's second largest silver mine. The Plateros property is geologically similar in setting to Fresnillo and has been mined for silver since colonial times from a number of veins, with small-scale mining continuing until 1997. In 1998, Pan American completed a first phase shallow exploration program but results to date have been unfavorable.

Lucita

Pan American acquired a 100 percent interest in the Lucita property, located near Zacatecas City, Mexico, in mid-1995. In October the property was optioned to Teck Corporation, one of Canada's largest mining corporations, which may earn a 60 percent interest by making a series of cash payments and funding all project costs until delivery of a feasibility study. Teck's focus will be the property's potential for massive sulfide mineralization similar to that of the nearby major Teck/Western Copper discovery at San Nicholas.



Hog Heaven, Waterloo, Hardshell and Capoose

Pan American maintains its interest in several established silver deposits in North America, acquired in the Company's formative years to give immediate leverage to silver. These "investment properties" contain an aggregate of nearly 250 million ounces of contained silver, which can be economically mined at sustained silver prices of $6 to $9 per ounce. Several of these properties have had final feasibility studies completed and some had undergone preliminary permitting. The investment properties have low holding costs and have the potential to add substantially to Pan American's silver production if silver prices trend higher.

Zacatecana

During 1998 Pan American terminated its interest in the Zacatecana property in Mexico due to the project's limited size and possible environmental liabilities from contained mercury.

Pan American Silver and Our Communities

Pan American Silver Corp. is committed to being a responsible member of society and to being a good corporate citizen in the communities in which we are active. The Company believes that our operations will contribute to long-term improvements in quality of life. Pan American will develop, maintain and promote safe and productive work practices in all aspects of our operations, and will comply with all local occupational health, safety and environmental laws and regulations. At all of Pan American's operations, the policy is to maximize training and hiring of workers from the communities surrounding the operations. A few projects at each operation are outlined below:

Quiruvilca

- Construction of potable water plants and revegetation facilities for the local community
- Sponsoring and funding of various educational (environmental, health, safety, and post-graduate research) and cultural activities
- Assisting the Federal Government in improving the main highway between Trujillo and the Quiruvilca mine site, as well as infrastructure improvements in the local villages
- Initiation of incentive programs linked to safety performance as well as to productivity
- Implementation, in 1999, of comprehensive safety training and environmental awareness programs to improve standards

La Colorada

- Construction of a new water supply and disposal system, and new sanitary landfills
- Initiation of clean up and consolidation of hazardous wastes, garbage and scrap metal for disposal into approved facilities
- Implementation of safety and training procedures to set high quality operating standards at La Colorada prior to re-opening operations
- A comprehensive Environmental Impact Statement details existing conditions and plans for phased remediation
- Revegetation of existing mine waste materials and disturbed areas

Dukat

- Payment of back wages of former mine workers as part of project acquisition ($4 million)
- Sponsorship of trust fund for community development ($1 million)
- Proactive training and employment program for indigenous peoples
- Development of standards for mine health and safety training to meet both Russian and Western standards
- A comprehensive Environmental Impact Statement posted on World Bank's website for comment and review
- Training Russian operations management in Western practices

Vancouver

- Pan American Silver is a major sponsor of the Pacific Mineral Museum

Pan American's principal business objectives are to grow profitably without relying on higher silver prices, and to have outstanding share price leverage if silver prices improve in coming years.

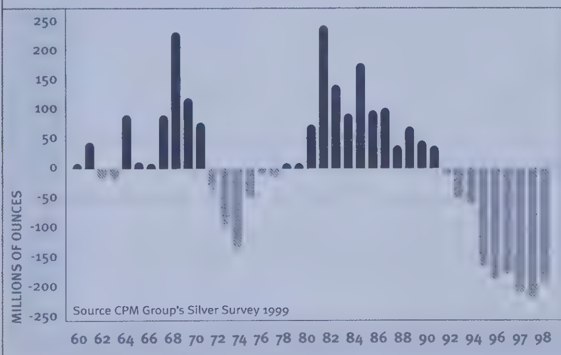
In 1998, the independent research firm CPM Group estimates that silver demand exceeded supply by 192 million ounces. Despite Asian and commodity market turmoil, silver demand increased 2.4 percent to 822 million ounces, including a 6.2 percent increase in silver demand in the photographic industry. Mine production of silver increased 6.7 percent to 448 million ounces, a reflection of the start-up in 1998 of the world's two largest silver mines at Cannington (24 million ounces per year) and Chimberos (33 million ounces for an 18 month mine life) and the expansion of several Mexican silver mines. In 1999, Chimberos will cease production and world silver mine production growth should decline. Since 1990, the large supply-demand deficit has consumed more than 1.08 billion ounces of bullion stockpiles, leaving inventories at critically depleted levels.

Silver prices were volatile in 1998, spiking to $7.81 on February 5, but ending the year lower than they were when the Company started in early 1994. We believe prices ended 1998 lower than were justified by demand-supply fundamentals, due to several extraordinary events: (1) the collapse in all basic commodity prices and the reduced hedge fund activity reflected by the LTCM crisis in October; (2) a decline in investment demand due to the Asian financial crisis; (3) a temporary drop in Indian demand due to high first quarter silver prices, and economic sanctions and a devalued currency resulting from India's and Pakistan's nuclear tests in June; and (4) a huge increase in 1998 silver supply due to large forward sales in the first quarter and the start-up of two of the world's largest silver mines. None of these factors is likely to recur in 1999. 1998 was simply an anomalous (bearish) year for silver, compared to the past 18 years.

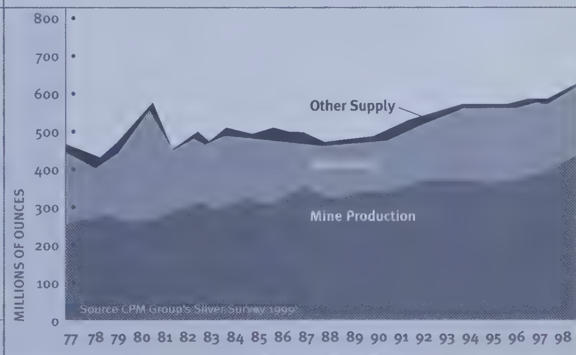
Looking forward, the silver market is expected to show continuing strong demand and limited supply growth. Silver supply cannot grow nearly enough to fill the supply-demand deficit. New silver mine production, including that of Pan American Silver, will be offset by a number of large silver mine closures. The only factor which can bring the silver market into balance in the near future is higher prices, which would decrease silver demand in some sectors and might increase silver scrap supply. Silver demand in the photographic industry has not declined with the advent of digital imaging – in fact it has increased in this sector by more than 20 percent since 1993 and is forecast to increase a further 10 percent by 2002 even with higher silver prices.

Silver is a beautiful and incredibly useful metal, with both precious and industrial applications. Its demand-supply fundamentals are robust and they support Pan American's view that prices will trend higher into the new millennium. At the same time, all of Pan American's mining projects are viable even at silver prices as low as $4.50 an ounce, thus offering protection in the event that silver prices do not rise. With production from Quiruvilca, Dukat and La Colorada, Pan American will be one of the world's largest and most highly leveraged silver producers and will thus be well positioned to give shareholders an intrinsic value gain if silver prices rise.

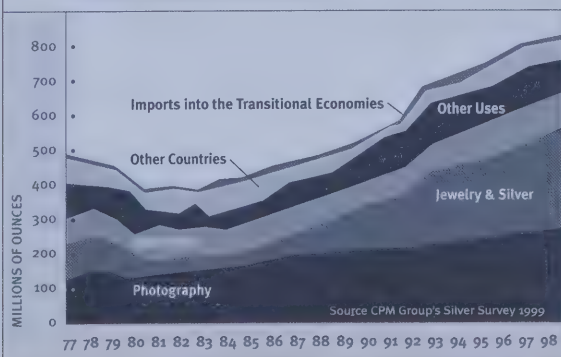
Silver Market Surplus/Deficit



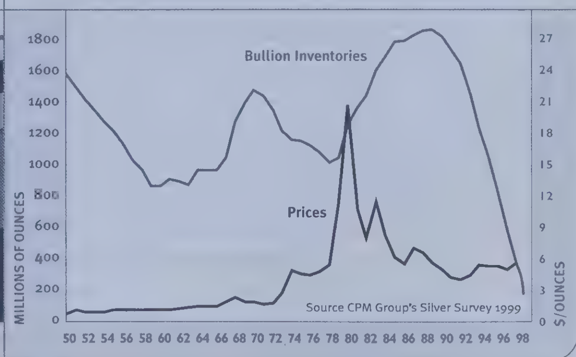
Silver Supply by Sector



Silver Fabrication Demand



Silver Bullion Inventories & Silver Prices



Management's Responsibility for Financial Information

The consolidated financial statements and all information in the Annual Report are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management in accordance with the accounting principles generally accepted in Canada from information available to February 19, 1999. Financial information presented throughout the Annual Report is consistent with the information presented in the consolidated financial statements.

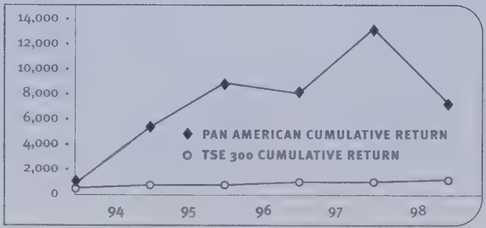
The Audit Committee of the Board of Directors meets with management to ensure that management maintains systems of internal and administrative controls to provide reasonable assurance that financial information is accurate. The Audit Committee also meets with the Company's external auditors to review the scope and results of their audit and auditors' report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who were appointed by the shareholders. The Auditors' Report sets out the scope of their examination and their opinion on the consolidated financial statements.

Statements contained in this Annual Report that are not historical facts are "forward-looking statements" as defined by in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those in such forward-looking statements as identified in the Company's Annual Information Form and Form 40-F, which are filed with securities regulatory authorities in Canada and United States. The Company assumes no obligation to update its forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such statements.

A Hawkshaw

Anthony Hawkshaw
Chief Financial Officer
Vancouver, Canada
February 19, 1999



Cumulative Total Shareholder Return
Compared to TSE 300 Stock Index

This discussion and analysis should be read in conjunction with the consolidated financial statements. The Company's reporting currency is the United States dollar. All amounts in this discussion and in the consolidated financial statements are expressed in United States dollars, unless identified otherwise.

Nature of the Company's Business, Risks and Uncertainties

Pan American Silver Corp. ("Pan American" or the "Company") is a silver mining, development and exploration company. The Company's Quiruvilca mine is located in Peru. In addition to silver, the Quiruvilca mine produces zinc, lead and copper. The Company currently has two properties under development, the 100 percent owned La Colorada project in Mexico and the 70 percent owned Dukat project in Russia. The La Colorada mine development project should be completed in 2000. Once project financing is in place for the Dukat project, the Company will start construction with plans to commence production in 2000. Pan American conducts acquisition, exploration and development activities throughout the world.

The Company's success depends on a number of factors. Typical risk factors include metal price fluctuations and operating hazards encountered in the mining business. Competition for silver resource properties, producing mines or interests in producing companies may limit opportunities to acquire reasonably priced assets. Future government, legal or regulatory changes could affect any aspect of the Company's business including, among other things, the title to properties, environmental permitting and costs, labour relations, or the ability to import required equipment or materials. Many of these factors are beyond the Company's control; however, risks and uncertainties are managed, in part, by experienced managers, by maintaining adequate liquidity, by cost control initiatives, by political risk insurance and by geographic diversification.

Year 2000

Pan American does not have any business critical information systems that will be affected by the Year 2000 computer problem, nor does management believe that the Company would be adversely affected by any such problem that might affect its major suppliers or customers. The expected cost to change the Company's information systems to resolve the Year 2000 computer problem is $150,000.

Outlook for 1999 and Market Risk

The Company recently completed a $21 million equity financing through the issuance of 3.9 million units at C$8.40 per unit. Each unit is comprised of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant allows the holder to acquire one common share of the Company for C$9.00 at any time until February 19, 2001. Project financing arrangements for Dukat are being made in conjunction with the International Finance Corporation ("IFC"), a member of the World Bank Group.

Management anticipates that 1999's production will be slightly more than 1998's. The Quiruvilca mine should produce 3.5 million ounces of silver at costs that should not exceed those of 1998. Exploration costs are expected to decrease by $0.6 million to $2.3 million. Corporate office costs and general and administrative costs are expected to increase by $0.1 million to $2.3 million. Depletion, depreciation and amortization are expected to increase by $0.2 million to $2.2 million if additional capital projects are placed into service as planned. Investment income is expected to decrease as cash is applied to capital projects.

Revenue will change as metal prices change – a ten percent increase or decrease in either the price of silver or zinc would increase or decrease revenue by five percent. A similar increase or decrease in the price of either lead or copper would increase or decrease revenue by one percent. A ten percent depreciation of the Peruvian sole relative to the United States dollar would decrease operating costs by approximately four percent. Corporate office costs are incurred in Canadian dollars. A 10 percent appreciation of the Canadian dollar relative to the United States dollar would increase costs by approximately $230,000.

Unions represent the mine workers at Quiruvilca. Contracts with those unions expired at the end of 1998. New contracts are currently being negotiated. Pan American maintains good relations with the unions and the result of negotiations is not expected to have a material impact on operations.

Pan American has silver call options with expiry dates of February 26, 1999 and May 26, 1999. In February 1999, the options expiring on February 26, 1999 were sold for a loss of $105,000.

The Company sells its metal concentrate under long-term contracts. One contract will expire at the end of 1999 and the other two contracts will expire at the end of 2000. Management believes that extending or replacing these contracts will not present any unusual difficulties.

Liquidity and Capital Resources

Cash and cash equivalents amounted to $10.1 million at December 31, 1998, a decrease of $14.8 million from December 31, 1997. The decrease was due to investment of $11.8 million in plant and equipment, $9.7 million in development properties and a negative $4.6 million cashflow from operating activities, which, in addition to mining activities, include exploration, general and administration and severance payments. These expenditures were partially offset by $4.3 million raised through the exercise of stock options and share purchase warrants and sales of $7.0 million of short-term investments. Of the $9.7 million spent on resource properties, $4.9 million were spent on Dukat, $3.8 million on La Colorada, $0.3 million on Tres Cruces and $0.7 million on other projects. For 1999, planned spending at the Quiruvilca mine on plant and equipment is $3.4 million, including $2.0 million related to projects that were started in 1998. The development at La Colorada and Dukat will require substantial capital resources. Capital spending to develop the La Colorada mine is estimated at $28.0 million of which approximately $20.0 million will be spent in 1999. Project financing arrangements are being discussed with the IFC to develop the Dukat mine. At December 31, 1998, liabilities relating to Peruvian employee severance indemnities accrued before 1990 were $1.0 million of which $0.1 million must be paid during 1999. The Company must discharge this liability by June 30, 2000.

Working capital was $15.3 million at December 31, 1998 compared to $35.3 million at December 31, 1997. The decrease in working capital is principally due to investments of $11.8 million in plant and equipment and $9.7 million in development properties.

As at December 31, concentrate inventories, in dry metric tonnes, were as follows:

	1998	1997	1996
Zinc concentrate	4,996	1,677	6,562
Lead concentrate	394	2,887	408
Copper concentrate	190	185	161
	5,580	4,749	7,131

Non-cash working capital requirements for 1999 are not expected to change materially from December 31, 1998. Planned capital spending and exploration will be funded from one or more of the following sources – debt financing, operating cashflow, new equity financing and working capital.

At December 31, 1997, cash and short-term investments were $31.9 million compared to $42.8 million at December 31, 1996, a decrease of $10.9 million. Working capital was $35.3 million compared to working capital of $47.3 million at December 31, 1996, a decrease of $12.0 million. The decrease in cash and working capital was primarily due to resource properties expenditures of $7.3 million and $6.8 million on property, plant and equipment, partially offset by $1.9 million cashflow from operations and $0.9 million from cash received on exercise of stock options.

Results of Operations – 1998

For the year ended December 31, 1998, the Company's net loss was $6.0 million ($0.24 per share) compared to a net loss for 1997 of $0.9 million ($0.04 per share). Mining contribution (revenue from concentrates sales and hedging activities minus operating costs) of $1.4 million and investment and other income of $1.2 million were offset by depreciation of $2.0 million, exploration expenses of $2.9 million, general and administration costs of $2.2 million, property write-offs of $1.2 million and provision for reclamation of $0.4 million.

The loss in 1998 was primarily due to increased exploration activities in Mexico, higher general and administration costs due to hiring of additional personnel, property write-offs, higher operating costs and lower investment income. The decrease in mining contribution was partially due to the El Niño weather phenomenon, which affected production from February through to May and forced closure of a number of near surface working areas. As a result, normal operating costs increased, additional unusual costs were incurred and productivity declined. Unusual costs and productivity losses due to El Niño are estimated to have amounted to $1.0 million, including increased costs for transportation of concentrates and supplies of approximately $0.4 million, and road repairs of about $0.2 million. The $1.7 million decrease in investment income was primarily due to a $0.2 million loss on silver options compared to a $0.4 million gain in 1997, no sale of investments compared to a $0.3 million gain in 1997 and lower average balance of short-term investments when compared to 1997.

Recovered silver is contained in three separate concentrates – zinc, copper and lead. Sales of concentrates and average prices realized per dry metric tonne of concentrates was:

	1998		1997		1996	
Concentrates	Tonnes	Price	Tonnes	Price	Tonnes	Price
Zinc	35,163	$ 342	43,517	$ 367	37,546	$ 325
Lead	12,764	$ 662	6,684	$ 646	9,238	$ 772
Copper	6,198	$ 1,346	6,125	$ 1,156	6,501	$ 1,211
Precipitate	331	$ 368	585	$ 853	427	$ 673

Silver recovered during the year was 3,116,144 ounces compared to 2,840,648 ounces in 1997.

The costs per ounce of silver produced were:

	1998	1997	1996
Cash cost	$ 3.78	$ 2.45	$ 3.90
Production cost	4.56	3.21	4.35
Total cost	$ 6.14	$ 3.79	$ 4.68

Cash costs include direct mining costs, net of by-product credits, royalties and production-related taxes, mine management and mine administration. Production costs include cash costs, depreciation, depletion, amortization and reclamation. Total costs include production costs, corporate general and administrative costs, exploration, property write-offs and capital taxes and net investment income, but exclude non-recurring gains from sales of investments.

Direct mining costs were $3.2 million higher in 1998 than in 1997 (a 12 percent increase) and by-product credits were $1.8 million lower (an 11 percent decrease) in 1998 when compared to 1997. The lower by-product credits are due to lower average realized zinc prices and operating cost increases reflect the costs of processing more tonnes and unusual El Niño related costs.

The Quiruvilca mine's average monthly production and recovery factors for the following years were:

	1998	1997	1996	1995
Tonnes milled	44,809	42,380	38,305	37,674
Zinc concentrate **tonnes**	3,206	3,233	2,878	2,645
Lead concentrate **tonnes**	858	762	699	731
Copper concentrate **tonnes**	496	515	509	347
Silver recovered	87.7%	86.6%	84.0%	82.0%
Zinc recovered	90.2%	90.2%	89.8%	88.4%
Lead recovered	85.9%	81.1%	81.5%	81.8%
Copper recovered	58.0%	61.3%	61.1%	52.8%

Results of Operations in 1997

For 1997, the Company's net loss was $0.9 million ($0.04 per share) compared to a net loss of $1.9 million ($0.09 per share) for the year ended December 31, 1996. In 1997, mining contribution (revenue minus operating costs) of $2.2 million and investment income of $3.0 million were offset by exploration expenses of $2.1 million, depreciation of $2.0 million, general and administration expense of $1.7 million and provision for reclamation of $0.2 million. The $0.7 million improvement in mining contribution, from 1996, is principally due to higher revenue from the sale of zinc, cost control measures and productivity improvements. The $1.4 million increase in investment income is due to a $0.3 million gain on the sale of an investment, a $0.4 million gain on silver options trading and a higher average balance of short-term investments when compared to 1996. The increase in exploration expense was caused by higher direct exploration expenditures in Mexico and property investigation activities in Russia and South America. General and administration expense has increased as a result of the Company's growth.

To the Shareholders of Pan American Silver Corp.

We have audited the consolidated balance sheets of Pan American Silver Corp. as at December 31, 1998 and 1997 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 1998, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations, and its cash flows for the years ended December 31, 1998, 1997 and 1996 in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP.

CHARTERED ACCOUNTANTS
Vancouver, BC
February 19, 1999

Pan American Silver	Consolidated Balance Sheets
(in thousands of US dollars)	As at December 31

	1998	1997
Assets		
Current		
Cash and cash equivalents	$ 10,076	$ 24,861
Short-term investments	63	7,075
Accounts receivable	4,563	5,629
Concentrate inventory	1,848	2,600
Supplies inventory	3,071	3,264
Prepaid expenses	1,742	1,750
Total Current Assets	21,363	45,179
Property, plant and equipment, net (Note 3)	23,863	13,725
Mineral properties (Note 4)	24,271	13,175
Long-term receivable (Note 5)	1,126	–
Other	96	61
Total Assets	$ 70,719	$ 72,140
Liabilities		
Current		
Accounts payable	$ 5,612	$ 4,853
Advance payments for concentrate	350	4,916
Current severance indemnity (Note 9)	105	148
Total Current Liabilities	6,067	9,917
Deferred revenue (Note 5)	1,126	–
Other liabilities	329	–
Provision for reclamation	598	191
Severance indemnity (Note 9)	943	1,408
Total Liabilities	9,063	11,516
Shareholders' Equity		
Share capital (Notes 6 and 12)		
Authorized: 100,000,000 common shares of no par value		
Issued: December 31, 1997 – 23,899,669 shares		
December 31, 1998 – 24,728,315 shares	74,595	67,590
Cumulative foreign exchange adjustment	235	221
Deficit	(13,174)	(7,187)
Total Shareholders' Equity	61,656	60,624
Total Liabilities and Shareholders' Equity	$ 70,719	$ 72,140

APPROVED BY THE BOARD

Ross J. Beaty, *Director* John H. Wright, *Director*

See accompanying notes to consolidated financial statements

Consolidated Statements of Operations

Pan American Silver

For the years ended December 31 | (in thousands of US dollars)

	1998	1997	1996
Revenue	$ 30,219	$ 27,789	$ 27,561
Expenses			
Operating	28,784	25,613	26,035
Depreciation and amortization	2,011	1,981	1,210
Reclamation	408	191	–
Exploration	2,856	2,097	1,506
General and administration	2,176	1,761	1,675
Write-down of mineral properties	1,184	–	519
	37,419	31,643	30,945
Loss from operations	(7,200)	(3,854)	(3,384)
Investment income, net	1,213	2,950	1,521
Net loss for the year	$ (5,987)	$ (904)	$ (1,863)
Loss per share (Note 6b)	($0.24)	($0.04)	($0.09)
Weighted average shares outstanding	24,570,837	23,776,308	21,693,969

See accompanying notes to consolidated financial statements

Pan American Silver	Consolidated Statement of Shareholders' Equity
(in thousands of US dollars)	For the years ended December 31

	Common stock		Cumulative Translation		
	Shares	Amount	Adjustment	Deficit	Total
Balance, December 31, 1995	19,841,169	$ 39,087	$ 55	$ (4,420)	$ 34,722
Issued for cash	2,000,000	17,592	–	–	17,592
Issue costs	–	(985)	–	–	(985)
Exercise of warrants	1,750,000	10,332	–	–	10,332
Exercise of stock options	118,000	617	–	–	617
Translation adjustment	–	–	127	–	127
Net loss for the year	–	–	–	(1,863)	(1,863)
Balance, December 31, 1996	23,709,169	66,643	182	(6,283)	60,542
Exercise of stock options	190,500	947	–	–	947
Translation adjustment	–	–	39	–	39
Net loss for the year	–	–	–	(904)	(904)
Balance, December 31, 1997	23,899,669	67,590	221	(7,187)	60,624
Exercise of warrants	359,000	3,500	–	–	3,500
Exercise of stock options	145,700	756	–	–	756
Issued on acquisition of La Colorada (Note 4)	304,000	2,575	–	–	2,575
Issued for service agreement	19,946	174	–	–	174
Translation adjustment	–	–	14	–	14
Net loss for the year	–	–	–	(5,987)	(5,987)
Balance, December 31, 1998	24,728,315	$ 74,595	$ 235	$ (13,174)	$ (61,656)

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31

(in thousands of US dollars)

	1998	1997	1996
Operating activities			
Sales proceeds	$ 26,240	$ 29,136	$ 24,308
Hedging activities	2,163	101	–
Other income and expenses	1,380	2,593	1,521
Silver options trading gains	37	25	–
Products and services purchased	(28,925)	(26,197)	(25,044)
Exploration	(2,856)	(2,097)	(1,254)
General and administration	(2,172)	(1,496)	(1,118)
Severance payments	(508)	(148)	(2,764)
	(4,641)	1,917	(4,351)
Investing activities			
Property, plant and equipment expenditures	(11,832)	(6,784)	(4,842)
Mineral property expenditures	(9,692)	(7,294)	(1,342)
Short term investments (purchases) and sales	7,159	(6,719)	(15,514)
Other	(35)	–	(13)
	(14,400)	(20,797)	(21,711)
Financing activity			
Shares issued for cash	4,256	947	27,556
Increase (decrease) in cash and cash equivalents for the year	(14,785)	(17,933)	1,494
Cash and cash equivalents at beginning of year	24,861	42,794	25,786
Cash and cash equivalents at end of year	$ 10,076	$ 24,861	$ 27,280
Supplemental disclosure of cash flow information			
Interest income received	$ 1,180	$ 2,165	$ 1,394
Interest paid	(139)	(210)	(333)
Income taxes paid	$ –	$ (12)	$ –
Supplemental disclosure of non-cash investing and financing activities			
Shares issued for mineral property	$ 2,575	$ –	$ –
Shares issued for service agreement	174	–	–
	$ 2,749	$ –	$ –

See accompanying notes to consolidated financial statements

1. Nature of Operations

The Company is a silver mining company. The recoverability of amounts capitalized for mineral properties depends on the discovery, development or exploitation of ore reserves or resources.

2. Significant Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada as set out below. Significant differences from United States accounting principles are disclosed in Note 13.

a) Basis of presentation

These consolidated financial statements are expressed in United States dollars and include the accounts of the Company and its subsidiaries. All intercompany transactions and accounts have been eliminated.

Certain comparative figures have been reclassified to conform with the classification adopted in the current year's consolidated financial statements.

b) Inventories

Concentrate inventories are stated at the lower of average cost and net realizable value determined by using the first-in, first-out method. Supplies inventories are carried at the lower of average cost and replacement cost.

c) Property, plant and equipment

i. Property

Acquisition costs of mineral development properties together with direct exploration and development expenditures thereon are deferred. Once in production these costs will be amortized on a units-of-production basis over a property's expected economic life. When deferred expenditures on individual producing or development properties exceed the estimated net recoverable value, the properties are written down to the estimated value. Deferred costs relating to abandoned properties are written-off. Exploration costs carried out on producing ore bodies or exploration properties are charged to operations.

ii. Plant and equipment are stated at the lower of cost or estimated net recoverable value. Maintenance, repairs and renewals are charged to operations. Betterments are capitalized.

Depreciation is calculated over the lesser of an asset's estimated useful life and the life of the property to which it relates.

d) Reclamation costs

Ongoing reclamation costs are charged to earnings in the period they are incurred. Estimated closure costs for reclamation are accrued on a units-of-production basis.

e) Foreign currency translation

The Company's functional currency is the US dollar. The accounts of self-sustaining foreign operations are accounted for by the current rate method. Under this method assets and liabilities are translated into US dollars at prevailing rates of exchange at each balance sheet date and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations.

Foreign currency transactions and balances and accounts of integrated foreign operations are accounted for by the temporal method. Under this method monetary items are translated at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations.

f) Derivative financial instruments

The Company uses forward sales agreements and option contracts for the purpose of managing price on anticipated metal sales. These instruments are accounted for as a hedge of anticipated transactions and are not recorded on the balance sheet of the Company. Option premiums and gains and losses from these contracts are recorded in income in the period that production is delivered.

(Tabular amounts are in thousands of US dollars, except for per share amounts) | Dec. 31, 1998, 1997 and 1996

At times, speculative option contracts may be purchased. These contracts are marked-to-market at each reporting date and gains or losses are included in income.

g) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid, fixed income securities or term deposits with an AA credit rating or better, an average yield of 4.98% (1997 – 5.8%) and an average term to maturity of one month.

h) Estimates and assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Property, Plant and Equipment

	Cost	Accumulated depreciation	1998 Net	1997 Net
Property	$ 1,300	$ –	$ 1,300	$ 198
Plant and equipment	25,310	7,529	17,781	11,218
Construction in progress	4,489	–	4,489	2,109
Other	419	126	293	200
	$ 31,518	$ 7,655	$ 23,863	$ 13,725

Construction in progress consists of capital projects or improvements that have not been placed into service. The Company will depreciate such assets commencing from the date that they are put into service.

4. Mineral Properties

Mineral properties consist of:

	1998	1997
Development properties		
Dukat, Russia	$ 11,129	$ 6,210
La Colorada, Mexico	7,084	722
	18,563	6,932
Investment properties		
Waterloo, USA	4,155	4,101
Mexican properties	1,288	1,968
Other	615	174
	$ 24,271	$ 13,175

Dukat, Russia

In November 1997, the Company, through its 70% owned Russian subsidiary, was awarded the right to develop and exploit the Dukat silver mine in Magadan Oblast, far east Russia for a payment of $5,000,000. The Company engaged two engineering firms to carry out separate studies of the economic feasibility of developing and exploiting the mine. The costs of these two studies totaled $2,500,000 and have been deferred in the accounts.

La Colorada

The Company acquired the La Colorada silver mine located in Zacatecas State, Mexico for consideration of $2.1 million, 304,000 shares of the Company issued at an ascribed value of $2,575,000 (C$3,648,000) and a 5% NSR royalty of which 3% may be bought out within five years for $2,000,000. During the year, the Company commenced an underground development program which included new drilling and tunneling, rehabilitating the existing shaft and engineering of a processing facility capable of processing 850 tonnes per day.

Dec. 31, 1998, 1997 and 1996 | (Tabular amounts are in thousands of US dollars, except for per share amounts)

4. Mineral Properties cont'd.

Waterloo, USA

The Company acquired a 100% interest in the Waterloo silver-barite property located in the Calico Mining District of San Bernardino County, California. The purchase price was $1,000,000 and 1,000,000 common shares issued at an ascribed value of $2,917,675 (C$3,980,000).

Mexican properties

In early October, the Company optioned to Teck Corporation a 60% interest in the 8,795 hectares Lucita property, located 5 km north of Zacatecas City, Mexico. Teck can earn its interest by paying all property holding costs and $50,000 for each year until a feasibility study is completed and delivered to the Company.

The Company abandoned its Zacatecana property and expensed $548,000 of deferred costs.

Other

The Company entered into an agreement granting Battle Mountain Gold Company ("BMGC") an option to acquire a 100% interest in the Tres Cruces gold property (the "Property") in northern Peru which is currently held 50% by the Company and 50% by Oroperu Resources Inc. ("Oroperu"). In consideration for this option, BMGC paid to the Company and Oroperu $600,000. To exercise the option, BMGC is required to make additional payments of $2,000,000 on the first anniversary, $2,000,000 on the second anniversary and $27,000,000 on the third anniversary. The Company is entitled to its pro rata share of such payments. BMGC is also required to spend at least $2,500,000 in exploration expenditures in each year and pay all land holding costs. Upon the exercise of this option, BMGC will make future payments based on recoverable gold reserves in excess of 1,500,000 ounces on the basis of $20 per heap leachable gold ounce and $10 per non-heap leachable gold ounce, to a maximum of $2,000,000 per year and a sliding scale net smelter return royalty.

5. Long-Term Receivable and Deferred Revenue

The Company sold its interest in a Peruvian power line for $1,747,000 of which $121,000 was received and $1,626,000 was deferred. The current portion of long-term receivable and deferred revenue of $400,000 is in current assets and current liabilities. The amount deferred accrues interest at 3 month LIBOR plus 1% and is payable as a 25% reduction of future power costs. For the year ended December 31, 1998, the Company has received $100,000 in power cost reductions.

6. Share Capital

a) Transactions concerning stock options and share purchase warrants are summarized as follows:

	INCENTIVE STOCK OPTION PLAN		SHARE PURCHASE WARRANTS		
	Shares	Price	Shares	Price	Total Shares
Outstanding, December 31, 1996	1,460,500	$0.19-$7.48	1,216,000	$5.47-$10.21	2,676,500
Year ended December 31, 1997					
Granted	625,000	$6.47-$8.88	–	–	625,000
Exercised	(190,500)	$0.19-$6.47	–	–	(190,500)
Cancelled	(67,500)	$6.47	–	–	(67,500)
Outstanding, December 31, 1997	1,827,500	$0.19-$8.88	1,216,000	$5.47-$10.21	3,043,500
Year ended December 31, 1998					
Granted	375,000	$7.92-$9.85	–	–	375,000
Exercised	(145,700)	$0.17-$6.03	(359,000)	$10.21	(504,700)
Cancelled	(15,000)	$6.47	(357,000)	$10.21	(372,000)
Outstanding, December 31, 1998	2,041,800	$0.17-$9.85	500,000	$5.47	2,541,800

(Tabular amounts are in thousands of US dollars, except for per share amounts) | Dec. 31, 1998, 1997 and 1996

The following table summarizes information concerning stock options outstanding at December 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Price	Number Outstanding as of December 31, 1998	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price	Number Exercisable as of December 31, 1998	Weighted Average Exercise Price
$0.17 - $1.73	89,500	2.50	$ 0.36	89,500	$ 0.36
$6.03	862,500	21.06	6.03	862,500	6.03
$6.69 - $8.80	110,000	33.52	8.03	70,000	7.59
$6.03 - $8.28	545,000	44.23	6.11	483,000	6.07
$7.92 - $9.85	290,000	51.42	8.28	150,000	8.36
$6.03	144,800	81.90	6.03	144,800	6.03
	2,041,800	46.43	$ 6.23	1,799,800	$ 6.01

At December 31, 1997 and 1996, 1,069,000 and 695,000 stock options were exercisable at a weighted average exercise price of $6.11 and $6.04 respectively.

b) The net loss per share has been calculated on the basis of the weighted average number of shares outstanding during the period. Fully diluted loss per share has not been presented because the effect would be anti-dilutive.

7. Financial Instruments

Fair value

The Company's financial instruments include cash, short-term investments, receivables and accounts and advances payable. The carrying value of these financial instruments reported on the balance sheet reflects their approximate fair value due to their terms or their terms to maturity.

Concentration of Credit Risk

In 1998, 1997 and 1996 the Company's two customers accounted for 100% of concentrate sales revenue. The loss of either of these customers or curtailment of purchases by such customers could have a material adverse affect on the Company's results of operations and financial condition.

Derivatives

The Company entered into hedging transactions, for the period August 1997 through December 1998, for a portion of its production from the Quiruvilca mine. These transactions consisted of the sale of 800 tonnes of zinc per month at an average price of $1,374 per tonne. For the year ended December 31, 1998, the Company recognized income of $2,039,000 from these transactions.

The Company purchased call options for 800,000 ounces of silver, expiring between February 26, 1999 and May 26, 1999, at a cost of $256,000. The carrying value of these options is adjusted to market at the end of each month and they are valued at $40,000 as at December 31, 1998.

Dec. 31, 1998, 1997 and 1996 | (Tabular amounts are in thousands of US dollars, except for per share amounts)

8. Segmented Information

The Company operates in one industry and seven countries. Segmented disclosures for operating segments and enterprise wide information are as follows:

1998	Mining	Investment & metals trading	Exploration & development	1998 Total
Revenue from external customers	$ 28,180	$ 2,039	$ –	$ 30,219
Interest revenue	84	992	104	1,180
Interest expense	(139)	–	–	(139)
Exploration	(307)	–	(2,549)	(2,856)
Depreciation	(1,944)	–	(67)	(2,011)
Net income (loss)	(3,664)	3,285	(5,608)	(5,987)
Capital asset expenditures	8,986	–	15,126	24,112
Segment assets	$ 23,647	$ 7,781	$ 39,291	$ 70,719

1997	Mining	Investment & metals trading	Exploration & development	1997 Total
Revenue from external customers	$ 27,447	$ 342	$ –	$ 27,789
Interest revenue	70	1,922	173	2,165
Interest expense	(191)	–	–	(191)
Exploration	–	–	(2,097)	(2,097)
Depreciation	(1,944)	–	(12)	(1,956)
Net income (loss)	277	898	(2,079)	(904)
Capital asset expenditures	6,654	–	7,743	14,397
Segment assets	$ 16,463	$ 23,740	$ 31,937	$ 72,140

1996	Mining	Investment & metals trading	Exploration & development	1996 Total
Revenue from external customers	$ 27,561	$ –	$ –	$ 27,561
Interest revenue	18	1,056	320	1,394
Interest expense	(333)	–	–	(333)
Exploration	–	–	(1,506)	(1,506)
Depreciation	(1,185)	–	(26)	(1,211)
Net income (loss)	(889)	944	(1,917)	(1,862)
Capital asset expenditures	4,824	–	1,364	6,188
Segment assets	$ 9,064	$ 45,205	$ 13,409	$ 67,678

	REVENUE			CAPITAL ASSETS	
	1998	1997	1996	1998	1997
Peru	$ 28,180	$ 27,447	$ 27,561	$ 20,993	$ 13,634
Russia	–	–	–	11,129	6,226
Canada	–	–	–	204	95
Mexico	–	–	–	11,517	2,743
United States	–	–	–	4,263	4,174
Bolivia	–	–	–	28	28
Barbados	2,039	342	–	–	–
	$ 30,219	$ 27,789	$ 27,561	$ 48,134	$ 26,900

9. Commitments

The Company must, by June 30, 2000, discharge an obligation to its Peruvian employees for employee severance indemnity that had accumulated at December 31, 1990. One-tenth of the obligation is to be paid each year until the year 2000 when the outstanding balance must be paid. At December 31, 1998 the unpaid obligation amounted to $1,048,000 (3,310,000 Peruvian Soles) of which $105,000 is reflected in current liabilities and due in 1999.

10. Income Taxes

The Company has $1,576,000 (C$2,416,000) of non-capital losses available to apply against future Canadian income for tax purposes. These losses will expire over the next seven years. The Company has $19,926,000 of non-capital losses available to apply against future Peruvian income for tax purposes, which expire in 1999. The Company has $2,692,000 (27,459,000 Pesos) of non-capital loss available to apply against future Mexican income for tax purposes and that will expire over the next ten years. Due to the uncertainty of ultimate realization, the potential tax benefit of these losses, at the applicable statutory tax rates, of $7,618,000 (1997 - $6,650,000; 1996 - $6,292,000) has not been recorded in the accounts.

11. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue might be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on the operations and financial reporting may range from minor errors to significant systems failure which might affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to customers, suppliers, or other third parties, will be fully solved.

12. Subsequent Events

Subsequent to December 31, 1998, the Company:

i. signed a mandate letter with the International Finance Corporation ("IFC"), a member of the World Bank Group, under which IFC will endeavor to structure a plan to finance the construction and operation of the Dukat silver mine, located in far east Russia. The first phase of the mandate comprises a technical, environmental, financial and legal appraisal of the project and preparation of a term sheet outlining the proposed financial structure. As part of the arrangement, IFC may receive payments totaling $450,000 and, subject to regulatory approval, be granted five-year warrants to purchase 537,110 shares of the Company for $5.64 (C$8.65) per warrant. These warrants will only vest on the closing of the Dukat financing;

ii. completed a 3,900,000 unit equity financing at a price of $5.48 (C$8.40) per unit for gross proceeds of $22,031,000 (C$32,760,000). The net proceeds, after issue costs were $21,040,000 (C$31,286,000). Each unit consists of one common share and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the holder to acquire one common share of the Company at any time until February 19, 2001 at a price of $5.87 (C$9.00) per common share.

Dec. 31, 1998, 1997 and 1996 | (Tabular amounts are in thousands of US dollars, except for per share amounts)

how to allocate the difference deficit $3.5 million

13. Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which differ in certain respects with accounting principles generally accepted in the United States ("US GAAP"). Had the Company followed US GAAP, certain financial statement items would have been reported as follows:

a) i. US GAAP requires that compensation expense, based on the fair value at grant date, of stock options granted to non-employees be recognized over the vesting period, whereas Canadian GAAP does not require recognition of such costs.

ii. US GAAP requires exploration costs to be expensed until there is substantial evidence that a commercial body of ore has been located, whereas Canadian GAAP allows exploration costs to be deferred.

The cumulative effect on the balance sheets of the Company prepared in accordance with US GAAP would reduce total assets in 1998 - $3,501,000, 1997 - $3,643,000 and increase accumulated deficit by the corresponding amounts.

	1998	1997	1996
Consolidated Statements of Operations			
Net loss under Canadian GAAP	$ (5,987)	$ (904)	$ (1,863)
Consulting expense FAS 123	(172)	–	–
Deferred exploration	314	(2,269)	(1,374)
Net loss under US GAAP	$ (5,845)	$ (3,173)	$ (3,237)
Basic loss per share under US GAAP	($0.24)	($0.13)	($0.15)

The effect on the statement of cash flows would be to classify deferred exploration expenditures as an operating activity rather than an investing activity.

b) Stock based compensation

For US GAAP purposes the Company accounts for stock-based compensation to employees and directors, under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), using the intrinsic value based method whereby compensation cost is recorded for the excess, if any, of the quoted market price, at the date granted. As at December 31, 1998 no compensation cost has been recorded for any period under this method.

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), issued in October 1995, requires the use of the fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the options granted and is recognized over the exercise period. During the year ended December 31, 1998, the Company issued options to an individual other than employee and director which under SFAS 123 must be recognized as consulting expenses in the period they are issued.

SFAS 123, however allows the Company to continue to measure the compensation cost of employees in accordance with APB 25. The Company has therefore adopted the disclosure-only provision of SFAS 123.

(Tabular amounts are in thousands of US dollars, except for per share amounts) | Dec. 31, 1998, 1997 and 1996

The following pro forma financial information presents the net loss for the year and the loss per common share had the Company adopted SFAS 123 for all stock options issued to employees and directors.

	1998	1997	1996
Net loss for the year under US GAAP	$ (5,845)	$ (3,173)	$ (3,237)
Additional stock based compensation costs	(2,261)	(1,829)	(1,124)
Pro forma net loss under US GAAP	$ (8,106)	$ (5,002)	$ (4,361)
Pro forma loss per share	($0.33)	($0.21)	($0.20)

Using the fair value based method for stock-based compensation, additional costs of approximately $2,261,000 $1,829,000 and $1,124,000 would have been recorded for the years ended December 31, 1998, 1997 and 1996 respectively. These amounts are determined using an option pricing model assuming no dividends are paid, a vesting period occurring over several years, a weighted average volatility of the Company's share price of 63.30% (1997 – 39.01% and 1996 – 47.14%) and a weighted average annual risk free rate of 5.0% (1997 – 5.75% and 1996 – 6.03%)

c) Accounting for income taxes

US GAAP requires, pursuant to Statement of Financial Accounting Standard No. 109, that a deferred tax asset amount be recognized for loss carry-forwards. Although the Company has loss carry-forwards, due to uncertainty as to utilization prior to their expiry, the deferred tax asset amounts would have been completely offset in these consolidated financial statements by a valuation provision.

d) Comprehensive income

The Financial Accounting Standards Board issued SFAS No. 130, *Reporting Comprehensive Income* ("SFAS 130"), which is required to be adopted on January 1, 1998. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components. The impact of SFAS 130 on the Company's financial statements is as follows:

	1998	1997	1996
Net loss under US GAAP	$ (5,845)	$ (3,173)	$ (3,237)
Other comprehensive income:			
Translation adjustment	14	39	128
Unrealized gain on marketable securities	53	48	–
Comprehensive net loss under US GAAP	$ (5,778)	$ (3,086)	$ (3,109)

e) Recent US pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), which standardizes the accounting for derivative instruments. SFAS 133 is effective for all quarters of all financial years beginning after June 15, 1999. The Company is currently assessing the impact of SFAS 133 on the Company's financial statements and has not yet determined what if any changes will be necessary.

Vancouver Office – Corporate Headquarters

Pan American Silver Corp.
1500 – 625 Howe Street
Vancouver, British Columbia
Canada V6C 2T6
www.panamericansilver.com
Tel: (604) 684-1175
Fax: (604) 684-0147

Ross J. Beaty Chairman and Chief Executive Officer
John H. Wright President and Chief Operating Officer
Tony Hawkshaw Chief Financial Officer
Michel Robert Senior Vice President, Engineering
James Wade Senior Vice President, Russia
Rosalie C. Moore Vice President, Corporate Relations
Robert Pirooz Vice President, Legal Affairs
Jenna Hardy Manager, Technical Services
Norm Pitcher Chief Geologist, Mining & Development
Charles Parker Operations Controller
Gordon Jang Controller

Peru Office

Corporación Minera Nor Peru
Ave. Rep. De Panama No. 3055, Piso 11
San Isidro, Lima, Peru
Tel: (51) 1 222-2988
Fax: (51) 1 441-0570

Andres Dasso Executive Director
Mario del Rio General Manager

Mexican Offices

Plata Panamericana S.A. de C.V.
Ave. 20 de Noviembre 1920 Ote.
Primer Piso, Col. Guillermina
Durango, Durango, Mexico CP 34270
Tel: (52) 18 17-80-01
Fax: (52) 18 17-80-61

Ramon Davila President and Executive Director
Andre Godbout General Manager

Plata Panamericana S.A. de C.V.
Calle Nueva Inglaterra No. 4941
Residencial Campestre
Chihuahua, Chihuahua, Mexico CP 31238
Tel: (52) 14 23-06-41
Fax: (52) 14 23-23-70

Jorge Islas Exploration Manager

Russia Office

ZAO Serebro Dukat
Proletarskaya Str. 13/1,5th floor
68500, Magadan
Russian Federation
685000
Tel: (7) 413 229-9297
Fax: (7) 413 222-6232

James Wade General Director
Kirk Adams Director, Finance and Administration

Bolivia Office

Pan American Silver (Bolivia) S.A.
Calle Carranza 474, Sopocachi
La Paz, Bolivia
Tel: (591) 243-103-5
Fax: (591) 232-604-6

Stu Moller Vice President, Exploration

Auditors

Deloitte & Touche
Chartered Accountants
2000-1055 Dunsmuir Street
Vancouver, British Columbia
Canada V7X 1P4

Registrar and Transfer Agent

Montreal Trust Company
510 Burrard Street
Vancouver, British Columbia
Canada V6C 3B9

Legal Counsel

Ladner Downs
1200 Waterfront Centre
200 Burrard Street
Vancouver, British Columbia
Canada V7X 1T2

Authorized Capital

100,000,000 common shares without par value

Issued Capital

December 31, 1998:
24,728,315 shares

Trading Information

TSE
Shares: PAA
Warrants: PAA.WT

NASDAQ-Amex
Shares: PAAS
Options: PZQ (on Amex and Philadelphia Exchanges)

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Silver as an Investment

"Here is a low price venture that is guaranteed never to go bankrupt. It will always have a ready liquidation value. I can own it in size. It is 98% below its inflation adjusted high price of twenty years ago. I never have to worry about bad management taking over. Shares outstanding are being reduced by twenty percent a year. It requires no time, no maintenance and little ongoing expense. It is like no other asset and is a prudent diversification. It is impervious to currency and political upheaval. It has stood the test of time for utility and desirability. It is known and wanted by every inhabitant on earth. It is out of favor currently with the establishment. It has the largest naked short position ever known in history. The risk/reward ratio is so good it's scary. Forget compliant, it's Y2K enhanced. And, although it probably shouldn't matter at my age, it is the sexiest investment I own."

Excerpted from "Thank You, Mr. Buffett", by Ted Butler, May 1998,
http://www.gold-eagle.com/research/butlerndx.html